

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
ADVO, INC.
(ADVO/USPS-26-29)

The United States Postal Service hereby provides responses to the following interrogatories of Advo, Inc.: ADVO/USPS-26-29, filed on September 17, 1997.

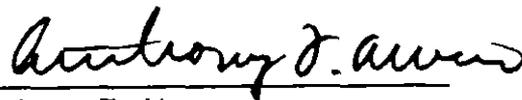
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
October 1, 1997

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF
ADVO, INC.

ADVO/USPS-26. Please refer to LR H-182, spreadsheet STDAMPWT.XLS. Explain the source and units (e.g., costs or weighted direct tallies) of the numbers in MODWIND, BMCWIND, and NMODWIND columns D-S.

RESPONSE:

The values appearing in columns D-S of sheets MODWIND, BMCWIND, and NMODWIND in STDAMPWT.XLS are the sum of the tally dollar value of direct tallies belonging to the particular mail processing cost pool, activity code, and weight increment represented by each cell. For this analysis, a direct tally is defined as a tally to which an activity code in the range of 0010 - 4950 was assigned.

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF
ADVO, INC.

ADVO/USPS-27. Please provide the source of the density (pounds/cubic feet) figures used in LR H-108 spreadsheet SA96SHP.XLS (BRCRT).

RESPONSE.

The values for letters and flats are found in Supplement 1 to USPS LR-MCR-13, filed in Docket No. MC95-1. The value for parcels is found in Appendix C of USPS LR-PCR-38, filed in Docket No. MC97-2.

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF
ADVO, INC.

ADVO/USPS-28. Please refer to USPS LR-H-182. Please provide, in a format similar to Tables 1 and 2 and Charts 1 and 2, adjusted attributable costs, mail volumes, and unit costs separately for (i) Regular Rate Carrier Route total and (ii) Regular Rate Carrier Route flats, after adjustment for presort level and dropship characteristics. Please explain and provide your derivations.

RESPONSE:

Attached to this response are tables detailing the requested adjustments. The first two tables show the source of the modeled costs used to calculate the adjustments. Table 1 shows the derivation of the modeled costs for each level of destination entry. Table 2 shows the source of the mail processing and delivery modeled costs.

Table 3 shows the calculation of the adjustment for differences in drop-shipping between weight increments. Weight by entry discount and weight increment was developed from the spreadsheet "ESTSAR96.XLS", which is found on the CD-ROM accompanying library reference H-108. To calculate the adjustment, the modeled costs for each entry location are multiplied the pounds entered at that location. These costs are summed over the four entry locations for each weight increment and divided by the total weight in that weight increment. This yields the average modeled cost per pound for each weight increment. The average modeled cost per pound is also calculated for the total of weight summed across all weight increments. This average cost per pound for all mail is subtracted from the average cost at each weight increment and then multiplied by the average weight per piece to yield the adjustment factor. The adjustment factor for each weight increment is the difference, in cents per piece, between the modeled costs at each individual weight increment and the modeled costs for all mail in the subclass.

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF
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Table 4 displays the calculation of the adjustment factors for differences in presort level between weight increments. These calculations are essentially the same as the calculations for adjustment for destination entry, except that the step of converting from pounds to pieces is not necessary. The mail volumes by presort level and weight increment were also developed from data in the spreadsheet "ESTSAR96.XLS", which is found on the CD-ROM accompanying library reference H-108.

Table 5 shows the application of the adjustments to the original unit costs by weight increment. The adjustment factors calculated in Tables 3 and 4 are subtracted from the original unit costs to yield adjusted unit costs. The primary effect of the adjustments is to lower the unit costs in the heavy weight increments. This occurs because mail in these weight increments is less presorted and dropshipped less often than mail in the lighter weight increments.

Charts 1 through 4 shows the original and adjusted unit cost curves for regular mail, regular flats, ECR mail, and ECR flats respectively.

Chart 1, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Standard Mail (A) Regular

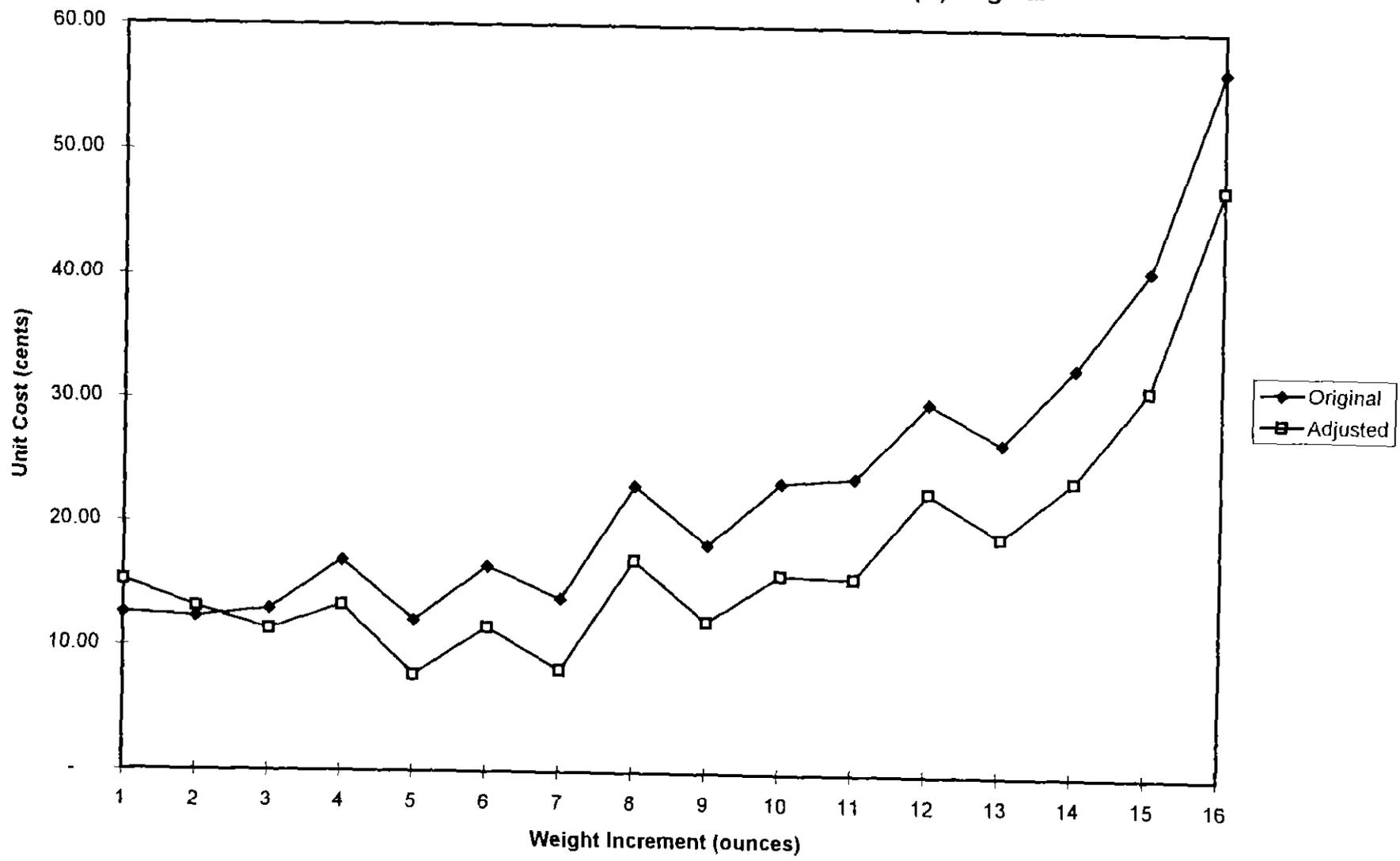


Chart 2, Response to ADV0/USPS-28
Unit Cost by Weight Increment - Standard Mail (A) Regular Flats

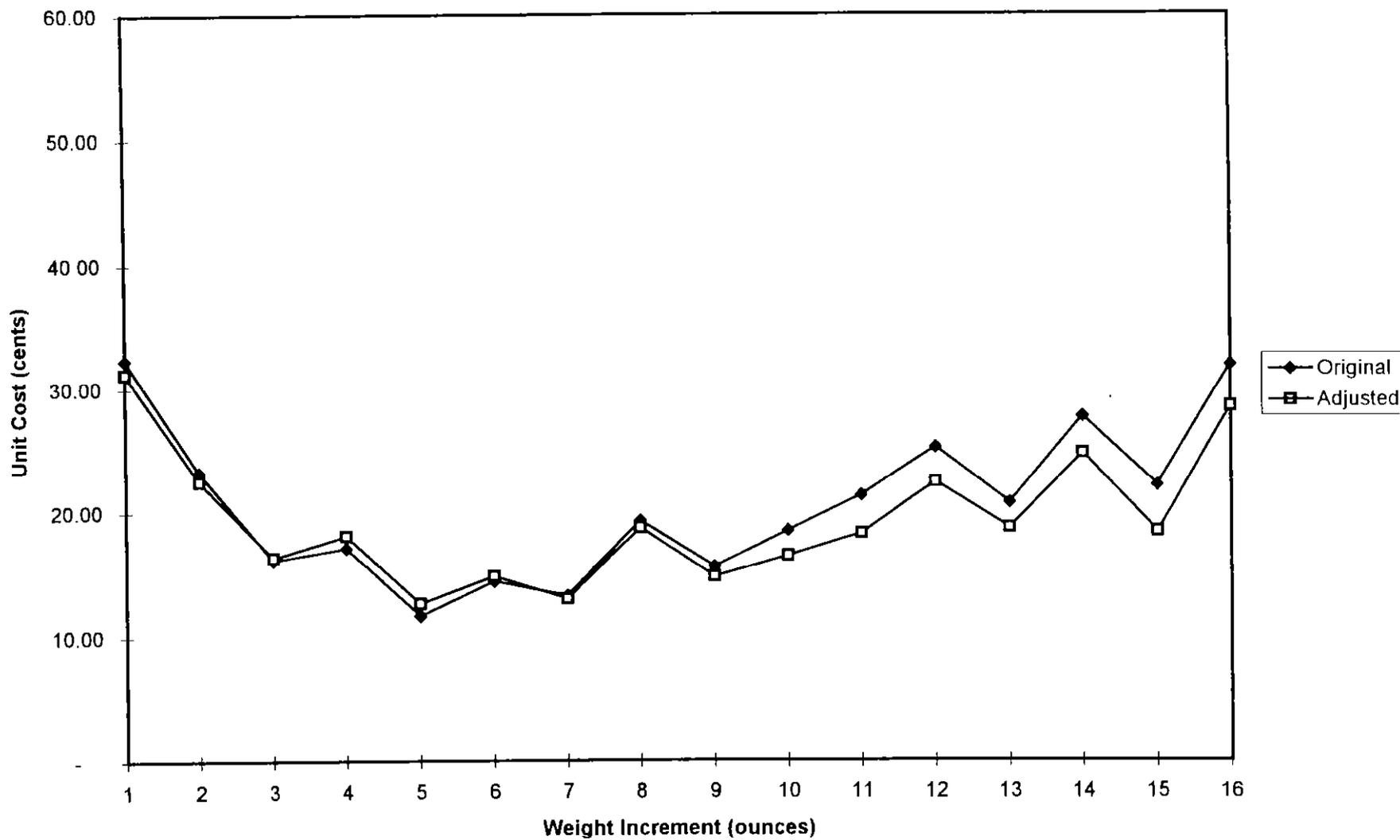


Chart 3, Response to ADV0/USPS-28
Unit Cost by Weight Increment - Enhanced Carrier Route Mail

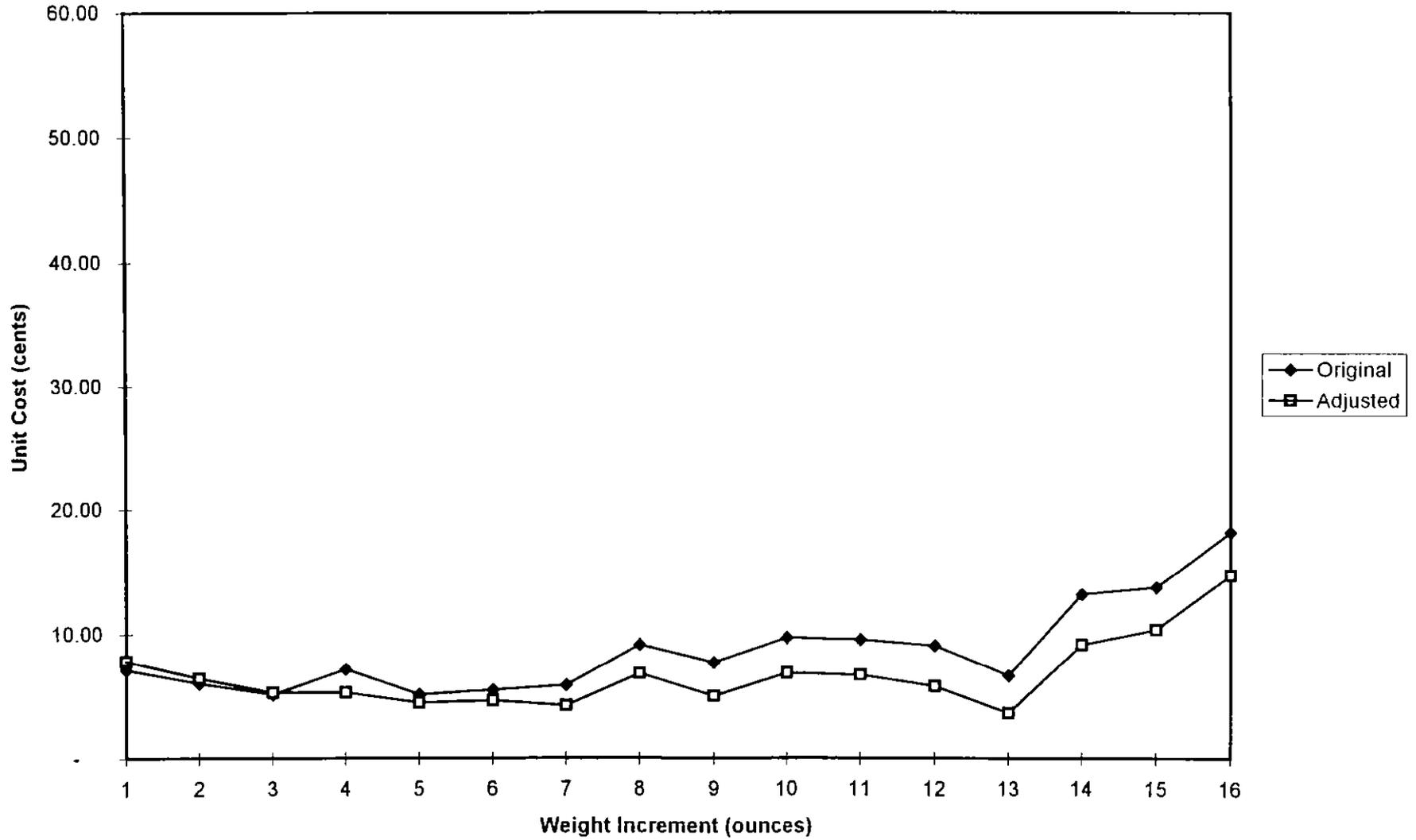
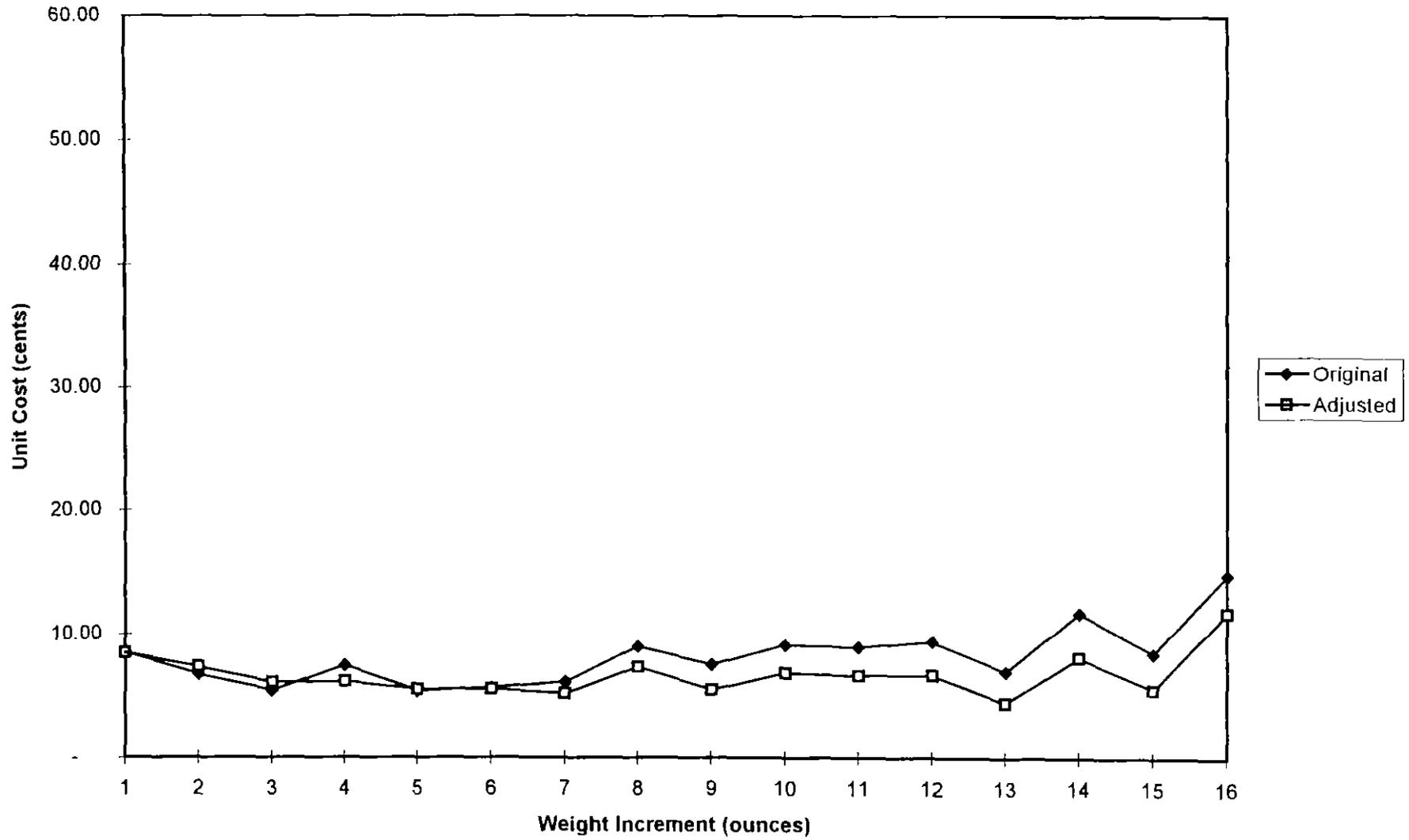


Chart 4, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Enhanced Carrier Route Flats



**Table 1, Response to ADV0/USPS-28
Standard (A) Mail
Destination Entry Savings and Costs**

Entry	Dropship Savings per pound (1)	Cost to Transport and Crosdock (cents per pound) (2)
No Discount		13.79
BMC	0.0904	4.75
SCF	0.1105	2.74
DDU	0.1379	-

Breakpoint 1/

(1) USPS LR-H-111

(2) Equals the DDU savings minus the savings for each row.

From USPS-T-36, Workpaper 1

Table 2, Response to ADVO/USPS-28
Mail Processing and Delivery Costs: Standard (A) Mail
 Test Year (in cents)

Regular Subclass	Mail Processing	Delivery	Total
Presort			
Flats			
Basic	19.16	7.00	26.16
3/5-digit	11.42	7.00	18.42
Letters			
Basic	9.03	3.82	12.85
3/5-digit	6.74	3.79	10.53
Automation			
Flats			
Basic	16.34	6.22	22.56
3/5-digit	9.24	6.22	15.46
Letters			
Basic	5.27	3.46	8.74
3-digit	4.73	3.42	8.15
5-digit	3.42	3.36	6.78
Enhanced Carrier Route			
Letters			
Auto	2.91	3.36	6.27
Basic	2.51	4.37	6.87
High-density	1.00	3.76	4.76
Saturation	1.00	2.85	3.86
Flats			
Basic	4.54	5.85	10.38
High-density	2.41	5.16	7.57
Saturation	2.41	3.50	5.91

Source: Exhibit USPS-29C, page 2, except for mail processing costs for flats, which are from USPS-T-26, Table III-4 (actual mail makeup).

**Table 3, Response to ADV0/USPS-28
Calculation of Adjustment for Dropship Differences**

	Weight Increment (ounces)																Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Weight by Entry Discount (000s of pounds) 1/																	
Regular - All Shapes																	
None	320,253	348,342	280,792	207,831	153,473	126,466	103,670	86,846	66,935	72,940	64,716	58,173	69,262	72,778	38,557	23,727	2,094,762
DBMC	93,491	177,151	224,980	270,639	164,742	98,675	53,879	42,942	31,224	22,426	26,033	44,266	31,918	21,520	9,151	4,650	1,317,690
DSCF	47,746	33,257	66,473	118,503	96,037	62,475	44,532	31,169	29,047	17,334	12,508	14,189	16,574	8,145	5,867	5,645	609,501
DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regular - Flats Only																	
None	21,420	103,489	147,552	171,005	141,190	109,721	70,983	59,872	47,823	45,356	29,957	24,553	22,279	17,723	18,170	12,048	1,043,141
DBMC	6,010	41,194	123,690	226,984	162,970	96,619	49,693	40,167	27,510	17,342	9,681	9,033	9,772	9,705	7,508	4,339	842,217
DSCF	5,079	17,259	47,983	107,103	95,096	61,288	39,939	26,751	25,495	15,876	8,039	8,184	11,465	5,123	5,282	5,591	485,552
DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Calculation of Modeled Costs and Adjustment Series for Regular Mail																	
Avg Model Cost/Lb 2/	10.82	10.27	8.95	7.50	7.63	8.29	8.94	9.24	9.05	10.29	10.17	9.01	9.78	11.01	11.04	10.72	9.15
Avg Model Cost/Lb - Flats Only	10.39	10.31	8.63	7.38	7.47	8.00	8.25	8.59	8.53	9.56	10.09	9.67	8.85	9.36	9.71	9.19	8.32
Avg Wt (lbs/pc) 3/	0.03	0.09	0.16	0.21	0.28	0.34	0.40	0.47	0.53	0.59	0.65	0.72	0.78	0.84	0.90	0.96	
Avg Wt - Flats	0.04	0.10	0.16	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.65	0.71	0.78	0.84	0.90	0.96	
DS Adjustment 4/	0.06	0.10	(0.03)	(0.35)	(0.42)	(0.29)	(0.08)	0.04	(0.06)	0.67	0.67	(0.10)	0.49	1.56	1.69	1.51	
DS Adjustment - Flats Only	0.09	0.19	0.05	(0.20)	(0.24)	(0.11)	(0.03)	0.13	0.11	0.74	1.15	0.97	0.41	0.87	1.26	0.85	
Weight by Entry Discount (000s of pounds) 1/																	
Enhanced Carrier Route - All Shapes																	
None	74,778	52,566	55,781	40,158	20,977	15,728	8,306	4,534	3,239	2,462	1,785	1,725	1,218	1,523	951	679	286,411
DBMC	84,093	138,658	198,763	169,426	94,862	53,523	25,664	12,679	11,106	7,458	3,441	2,562	3,534	2,972	1,621	2,130	812,491
DSCF	130,795	259,010	397,483	340,755	267,866	169,990	111,317	52,430	52,794	29,057	19,166	10,357	20,949	6,011	8,658	7,423	1,884,059
DDU	21,836	118,203	252,187	88,179	261,921	144,049	49,029	12,042	4,641	2,539	1,638	740	498	219	199	77	957,996
Enhanced Carrier Route - Flats Only																	
None	11,528	21,083	29,817	27,909	18,961	15,291	8,108	4,453	3,199	2,442	1,747	1,679	1,197	1,471	925	676	150,486
DBMC	14,609	39,899	86,875	132,392	89,960	53,058	25,528	12,554	11,087	7,458	3,433	2,561	3,525	2,972	1,614	2,128	489,654
DSCF	38,627	151,078	289,461	307,321	265,594	169,309	110,924	52,304	52,731	29,041	19,113	10,338	20,946	6,000	8,655	7,422	1,538,864
DDU	9,302	107,302	242,836	87,181	261,317	143,744	48,859	11,917	4,571	2,486	1,620	720	491	213	197	74	922,830
Calculation of Modeled Costs and Adjustment Series for Enhanced Carrier Route Mail																	
Avg Model Cost/Lb 2/	5.74	3.68	3.10	3.59	2.28	2.44	2.79	3.26	3.37	3.59	3.59	4.18	3.47	4.81	3.90	3.86	3.29
Avg Model Cost/Lb - Flats Only	4.51	2.80	2.49	3.34	2.23	2.43	2.78	3.25	3.37	3.59	3.58	4.16	3.46	4.77	3.87	3.86	2.78
Avg Wt (lbs/pc) 3/	0.03	0.09	0.15	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.66	0.72	0.78	0.83	0.91	0.96	
Avg Wt - Flats	0.04	0.10	0.15	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.66	0.72	0.78	0.83	0.91	0.96	
DS Adjustment 4/	0.08	0.04	(0.03)	0.07	(0.28)	(0.29)	(0.20)	(0.01)	0.04	0.18	0.20	0.64	0.14	1.27	0.55	0.55	
DS Adjustment - Flats Only	0.07	0.00	(0.04)	0.12	(0.15)	(0.12)	(0.00)	0.22	0.31	0.48	0.53	0.99	0.53	1.66	1.00	1.04	

1/ Weight by entry discount calculated from data available in the CD-ROM accompanying library reference H-108.

2/ Equals the sum of the weight in each entry discount times the model cost from Table 1 divided by the total weight in the weight increment.

3/ Average weight per piece is calculated from LR H-108 data

4/ Equals the average modeled cost for the weight increment minus the average modeled cost for the "Total" column times the average weight per piece

**Table 4, Response to ADVO/USPS-28
Calculation of Adjustment for Presort Differences**

	Weight Increment (ounces)																Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Regular Subclass: Mail Volumes (000) 1/																	
Presort																	
Flats																	
Basic	128,271	308,708	250,288	199,787	130,040	96,658	68,619	54,180	44,294	42,685	39,727	35,710	30,113	29,852	19,774	12,108	1,490,815
3/5-digit	351,936	507,380	497,516	487,557	280,469	197,994	175,332	113,042	75,085	70,733	79,149	96,393	89,599	70,810	23,052	11,604	3,127,651
Letters																	
Basic	1,557,096	440,480	135,745	24,765	-	-	-	-	-	-	-	-	-	-	-	-	2,158,086
3/5-digit	3,756,212	956,780	636,697	270,797	-	-	-	-	-	-	-	-	-	-	-	-	5,620,486
Automation																	
Flats																	
Basic	9,627	30,687	25,056	28,498	23,922	16,077	7,806	6,668	4,992	2,884	2,053	1,466	820	911	799	1,042	163,307
3/5-digit	243,810	881,323	1,307,041	1,727,880	1,054,842	534,332	248,875	170,662	117,140	74,211	36,918	29,490	30,251	20,499	15,995	10,566	6,503,836
Letters																	
Basic	966,523	402,406	95,565	6,050	-	-	-	-	-	-	-	-	-	-	-	-	1,470,545
3-digit	2,448,039	1,212,532	257,108	16,540	-	-	-	-	-	-	-	-	-	-	-	-	3,934,219
5-digit	3,844,850	1,576,399	441,012	23,242	-	-	-	-	-	-	-	-	-	-	-	-	5,885,503
Avg Modeled Cost 2/	9.61	11.33	13.95	16.18	17.06	17.51	18.07	18.25	18.49	19.06	19.73	19.62	19.39	19.85	20.25	20.31	12.27
Avg Modeled Cost - Flats Only	18.84	18.36	17.54	17.00	17.06	17.51	18.07	18.25	18.49	19.06	19.73	19.62	19.39	19.85	20.25	20.31	17.79
Presort Adjustment 3/	(2.66)	(0.95)	1.67	3.91	4.79	5.24	5.80	5.98	6.21	6.79	7.46	7.34	7.12	7.57	7.97	8.04	-
Presort Adjustment - Flats Onl	1.05	0.57	(0.26)	(0.79)	(0.73)	(0.28)	0.28	0.45	0.69	1.27	1.93	1.82	1.60	2.05	2.45	2.51	-
Enhanced Carrier Route: Mail Volumes (000) 1/																	
Letters																	
Auto	189,515	47,358	21,384	376	-	-	-	-	-	-	-	-	-	-	-	-	258,633
Basic	6,220,013	2,017,793	1,185,811	248,339	-	-	-	-	-	-	-	-	-	-	-	-	9,671,956
High-density	37,126	9,604	33,182	397	-	-	-	-	-	-	-	-	-	-	-	-	80,309
Saturation	1,538,714	664,853	387,895	7,464	-	-	-	-	-	-	-	-	-	-	-	-	2,598,926
Flats																	
Basic	916,242	1,214,604	1,606,054	2,063,979	1,209,868	642,856	347,012	145,104	122,553	64,352	35,738	19,142	32,610	12,288	12,106	10,463	8,454,972
High-density	55,113	183,651	242,898	90,740	92,800	36,833	19,726	9,179	6,377	2,483	1,226	1,125	360	193	88	48	742,839
Saturation	832,753	1,903,367	2,421,929	521,030	1,011,986	451,772	113,704	20,450	7,255	3,259	2,215	1,172	786	378	371	211	7,292,638
Avg Modeled Cost 2/	6.63	6.96	7.25	9.19	8.31	8.51	9.21	9.71	10.01	10.08	10.04	9.99	10.25	10.21	10.23	10.28	7.39
Avg Modeled Cost - Flats Only	8.23	7.65	7.69	9.42	8.31	8.51	9.21	9.71	10.01	10.08	10.04	9.99	10.25	10.21	10.23	10.28	8.28
Presort Adjustment 3/	(0.76)	(0.43)	(0.14)	1.80	0.93	1.12	1.82	2.32	2.63	2.69	2.65	2.60	2.86	2.82	2.84	2.89	-
Presort Adjustment - Flats Onl	(0.05)	(0.63)	(0.59)	1.14	0.04	0.23	0.93	1.43	1.74	1.80	1.77	1.71	1.97	1.93	1.95	2.01	-

1/ Pieces by presort category calculated from data available in the CD-ROM accompanying library reference H-108

2/ Equals the sum of pieces in each rate category times the model cost from Table 2 divided by the total pieces in the weight increment

3/ Equals the average modeled cost for the weight increment minus the average modeled cost for the "Total" column

Table 5, Response to ADVO/USPS-28
Summary of FY96 Unit Cost and Adjusted Unit Cost by Weight Increment for Standard (A) Regular and Enhanced Carrier Mail

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Bulk Regular Other																
Original Unit Cost	12.61	12.28	12.96	16.88	12.09	16.46	13.88	23.04	18.29	23.39	23.82	29.94	26.74	32.87	40.80	56.88
less:																
Presort Adjustment	(2.66)	(0.95)	1.67	3.91	4.79	5.24	5.80	5.98	6.21	6.79	7.46	7.34	7.12	7.57	7.97	8.04
Dropship Adjustment	0.06	0.10	(0.03)	(0.35)	(0.42)	(0.29)	(0.08)	0.04	(0.06)	0.67	0.67	(0.10)	0.49	1.56	1.69	1.51
Adjusted Unit Cost	15.22	13.13	11.32	13.33	7.73	11.52	8.16	17.03	12.14	15.93	15.70	22.70	19.12	23.74	31.13	47.34
Bulk Regular Other - Flats Only																
Original Unit Cost	32.33	23.24	16.11	17.09	11.66	14.43	13.25	19.24	15.56	18.41	21.27	25.13	20.65	27.58	22.03	31.75
less:																
Presort Adjustment	1.05	0.57	(0.26)	(0.79)	(0.73)	(0.28)	0.28	0.45	0.69	1.27	1.93	1.82	1.60	2.05	2.45	2.51
Dropship Adjustment	0.09	0.19	0.05	(0.20)	(0.24)	(0.11)	(0.03)	0.13	0.11	0.74	1.15	0.97	0.41	0.87	1.26	0.85
Adjusted Unit Cost	31.19	22.48	16.32	18.08	12.63	14.82	13.00	18.66	14.75	16.41	18.18	22.34	18.64	24.66	18.31	28.39
Enhanced Carrier Route																
Original Unit Cost	7.10	6.00	5.10	7.15	5.12	5.47	5.84	9.10	7.64	9.68	9.50	9.01	6.62	13.16	13.72	18.14
less:																
Presort Adjustment	(0.76)	(0.43)	(0.14)	1.80	0.93	1.12	1.82	2.32	2.63	2.69	2.65	2.60	2.86	2.82	2.84	2.89
Dropship Adjustment	0.08	0.04	(0.03)	0.07	(0.28)	(0.29)	(0.20)	(0.01)	0.04	0.18	0.20	0.64	0.14	1.27	0.55	0.55
Adjusted Unit Cost	7.78	6.40	5.27	5.29	4.48	4.64	4.23	6.79	4.97	6.82	6.64	5.77	3.62	9.08	10.32	14.70
Enhanced Carrier Route - Flats Only																
Original Unit Cost	8.49	6.69	5.40	7.41	5.37	5.65	6.09	8.97	7.51	9.10	8.93	9.37	6.94	11.68	8.46	14.78
less:																
Presort Adjustment	(0.05)	(0.63)	(0.59)	1.14	0.04	0.23	0.93	1.43	1.74	1.80	1.77	1.71	1.97	1.93	1.95	2.01
Dropship Adjustment	0.07	0.00	(0.04)	0.12	(0.15)	(0.12)	(0.00)	0.22	0.31	0.48	0.53	0.99	0.53	1.66	1.00	1.04
Adjusted Unit Cost	8.46	7.32	6.04	6.15	5.49	5.54	5.16	7.31	5.47	6.82	6.63	6.66	4.43	8.08	5.51	11.73

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO THE INTERROGATORIES OF ADVO

ADVO/USPS-29. This question relates to the relative volumes of mail processed through the facer/canceler operation. To the extent that specific volume data is unavailable, please provide the Postal Service's best estimate, either quantitative or qualitative (e.g., "virtually all," "the great majority," "a substantial portion," "more than half," "50 percent," "virtually none," etc.).

(a) Of the total volume of single-piece First Class Mail approximately what percentage is processed through the facer/canceler operation?

(b) Of the volume of single-piece First Class Mail in (a) that is processed through the facer/canceler operation, approximately what percentage requires such processing because of the need to either cancel stamps or properly face the mail?

(c) Of the total volume of Standard A Bulk Rate Regular mail, approximately what percentage is processed through the facer/canceler operation?

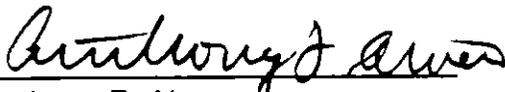
(d) Of the volume of Standard A Bulk Rate Regular mail in (c) that is processed through the facer/canceler operation, approximately what percentage requires such processing because of the need to either cancel stamps or properly face the mail? If any Standard A Bulk Rate Regular mail requires such processing, please explain why, in light of the facts that this mail (i) cannot use uncanceled stamps, and (ii) must be prepared by the mailer in bulk, presorted, and properly faced in trays or bundles.

Response:

- a. Approximately 65%.
- b. Virtually all.
- c. Virtually none.
- d. Not applicable.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 1, 1997